

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

EXPERIMENTAL PERIODICALS
CO-PALLETIZATION DROPSHIP
DISCOUNTS, 2002

Docket No. MC2002-3

**REQUEST OF THE UNITED STATES POSTAL SERVICE
FOR A RECOMMENDED DECISION ON EXPERIMENTAL
PERIODICALS CO-PALLETIZATION DROPSHIP DISCOUNTS**
(September 26, 2002)

Pursuant to chapter 36 of title 39, United States Code, the United States Postal Service has determined that an experimental change in the Domestic Mail Classification Schedule (DMCS) to establish rate categories and discounts for Periodicals mail that is co-palletized and dropshipped would be in the public interest and in accordance with the policies and applicable criteria of that title. Accordingly, the Postal Service requests the Postal Rate Commission to submit to the Governors of the Postal Service a recommended decision supporting the implementation of the experimental change, as herein requested.

The proposed experimental Periodicals co-palletization dropship discounts are designed to provide an additional incentive for publishers, printers, and consolidators to combine different publications or print runs on pallets, so that Periodicals mail can be moved from sacks to pallets. While about 70 percent of Periodicals mail is already

being prepared on pallets, the remaining mail lacks the volume/density as individual publications to reach pallet minimums. Since the preparation of co-pallets is typically more onerous than the preparation of single-publication pallets, an additional rate incentive may encourage mailer participation in this work-sharing behavior that benefits both the customers and the Postal Service. See Direct Testimony of Altaf H. Taufique on Behalf of United States Postal Service (USPS-T-1). The proposed discounts will be available only for Periodicals mail that lacks the density to prepare single-publication pallets. The goal is to drive costs out of the Periodicals class by encouraging low-density publications to combine with other publications. Through such combinations, Periodicals mail will migrate from more costly sacks to less costly pallets, and will be dropshipped, saving additional costs.

Two discount levels are proposed, distinguished by depth of sort: ADC (Area Distribution Center) and SCF (Sectional Center Facility). The proposed discounts – 0.7 cents per piece for the former and 1.0 cent per piece for the latter – reflect conservatively the estimated costs avoided by the particular degree of worksharing performed by the mailer. The proposed discounted rate categories would be additional options offered to mailers; existing Periodicals classifications and rates would remain unchanged.

In order to maintain consistency with the rates currently in effect, the cost avoidance measures underlying these proposals are estimated using the same cost base, including Test Year, as that underlying the Commission's Periodicals rate recommendations in Docket No. R2001-1. For purposes of this proceeding, the Postal Service's proposals employ the Commission's costing methods, and are supported by

the record in Docket No. R2001-1.¹ The cost avoidance calculations are shown in the testimony of witness Taufique (USPS-T-1), who also determines the proposed discounts based upon appropriate passthrough percentages.

As demonstrated in the testimony of witness Taufique (USPS-T-1), the Postal Service's overall revenue position will not be affected materially under the proposed experiment. No capital investment is required to initiate the service. The discounts selected are based on conservative cost avoidance estimates, and employ less than full passthroughs. Thus, the proposed experiment offers no appreciable risk of significant, negative financial results or harm to the Postal Service, mailers using the discounts, or other mailers.

By designating this request as one which involves an experimental change, the Postal Service intends for the Commission to apply its expedited rules of practice and procedure for experimental changes, §§ 3001.67 - 3001.67d of title 39, Code of Federal Regulations. Among other purposes, the rules pertaining to experimental filings are designed to facilitate the Postal Service's compliance with its statutory duty to "plan, develop, promote, and provide adequate and efficient postal services," 39 U.S.C. § 403(a), by allowing it to expeditiously change classifications and rates as an

¹ The Postal Service's use, in this proceeding, of costing methods employed by the Commission in the most recent omnibus rate case is not intended to imply the Postal Service's agreement that the Commission's methods generate the most accurate cost estimates possible. The Postal Service reserves the right to contest particular costing methods in future cases and will continue to advocate improvements in the Commission's methods. For purposes of this case, however, the Commission's current methods are employed in order to place the proposed discounts on a consistent footing with the Periodicals rates currently in effect, and to segregate from this proceeding costing inquiries that would better be pursued in a proceeding of greater scope.

experiment to test operational feasibility or customer response or other appropriate goals. The experimental rules also contemplate review of proposed experiments in the absence of historical cost, volume, revenue and other data that normally would underlie a request for a permanent change in mail classifications.

This filing is consistent with the logic of the experimental rules. The Postal Service lacks data about how much response there will be to a rate incentive for co-palletization. During the term of the experiment, more complete data would be gathered with the potential for supporting a request to establish the proposed or a similar change on a permanent basis. The cost, volume, and revenue analysis used to prepare this filing, and the Postal Service's plans for the collection of additional data, are described in witness Taufique's testimony (USPS-T-1).

The Postal Service proposes that this experimental classification be in effect for two years, which should allow mailers sufficient time to adjust their mailing practices to use the classification. Moreover, this period will provide the Postal Service adequate time to aggregate and fully analyze data collected under the experiment, so that a request for a permanent change in mail classification can be prepared if the data are determined to support such a request. If such a request is made within the experimental period, the Postal Service asks that the experiment continue until action on that request can be completed, thus avoiding disruption to both mailers and the Postal Service.

The Postal Service believes that the classifications embodied in this proposed experiment will be attractive to mailers and will contribute to the long-term viability of the postal system. The proposed classifications will further the general policies of efficient

postal operations and reasonable rates and fees enunciated in the Postal Reorganization Act. See 39 U.S.C. §§ 101(a), 403(a), and 403(b). The requested changes also conform to the criteria of 39 U.S.C. §§ 3622(b) and 3623(c).

Use of the more flexible and expedited procedures afforded by the experimental rules is appropriate for this proposal. The expedition allowed by the experimental rules is appropriate in light of the interest in controlling Periodicals costs as soon as possible. Flexibility is required because the detailed, conventional data necessary to support a request for a permanent classification change currently are unavailable. The unavailability of these data and the Postal Service's plans for collecting them are further explained in its testimony, its data collection plan (USPS-T-1, Attachment A), its Compliance Statement (Attachment F to this Request), and Motion Of United States Postal Service for Waiver, which accompanies this Request.

In accordance with the Commission's Rules of Practice and Procedure, the Postal Service submits herewith information and data which explain the nature and scope, significance, and effect of the proposed changes. The Postal Service's direct testimony accompanies this Request. The testimony and exhibits have been marked for identification as shown on Attachment E to this Request.

The instant filing incorporates by reference materials submitted with the Postal Service's Request in Docket No. R2001-1, and also Attachment C of its Request in Docket No. MC2002-2. The Postal Service believes that its submissions comply with the Commission's filing requirements in Rules 54 and 64 of the Rules of Practice and Procedure (39 C.F.R. §§ 3001.54 and 64). Since the Commission may conclude

otherwise, the Postal Service is today filing a separate motion for a waiver of the pertinent filing requirements in Rules 54 and 64.

WHEREFORE, the Postal Service requests that the Commission submit a recommended decision in accordance with this Request.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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September 26, 2002